

BIG 5 HLABISA MUNICIPALITY



CREDIT CONTROL & DEBT COLLECTION POLICY 2018/19

1. INTRODUCTION

It is vital to the long term financial viability of any municipality that it collects the revenue (such as tariffs, rates and taxes) due to it for services rendered. In terms of **Section 96 of the Local Government Municipal Systems Act No. 32 of 2000** a municipality:

- Must collect all money that is due and payable to it, subject to this Act and any other applicable legislation, and
- For this purpose, must adopt, maintain and implement a credit control and debt collection policy, which is consistent with rates and tariff policies and complies with the provisions of this Act. In terms of Section 64 of MFMA the Accounting Officer must take all reasonable steps to ensure that the municipality has effective revenue collections system and has Credit Control and Debt Collection Policy.

This means that appropriate credit control and debtors mechanisms must be maintained. The services provided include water, electricity, refuse and sewerage removal, municipal roads, etc.

2. OBJECTIVE

2.1 The objective of a credit control and debt collection policy is to define a framework within which effective procedures could be developed to identify defaulters, and ensure that their failure to meet their financial obligations towards the Council, would be treated in a constant, fair and effective manner.

2.2 In terms of **Section 97 of the Local Government Municipal Systems Act No.32 of 2000**, a credit control and debt collection policy must provide for:

- Credit control procedures and mechanisms,
- Debt collection procedures and mechanisms,
- Provision for indigent debtors that is consistent with its rates and tariff policies and any national policy on indigents,
- Realistic targets consistent with:

Generally recognized accounting practices and collection ratios, and

The estimates of income set in the budget less an acceptable provision for bad debts.

- Interest on arrears, where appropriate,
- Extensions of time for payment of accounts

- Termination of services or the restriction of the provision of services when payments are in arrears,
- Matters relating to unauthorized consumption of services, theft and damages, and
- Any other matters that may be prescribed by regulation in terms of section 104 of the Local Government Municipal Systems Act No. 32 of 2000

2.3 A credit control and debt collection policy may differentiate between different Categories of ratepayers, users of services, debtors, tax services, service standards and other matters as long as the differentiation does not amount to unfair discrimination.

2.4 The result of an effective policy would improve the recovery rate of the Council's Debtors and would contribute to the realization of the Constitutional objective of providing basic services for human dignity.

3. RESPONSIBILITY / ACCOUNTABILITY FOR CREDIT CONTROL AND DEBTORS

3.1 Section 10G(2) (a) (ii) of the Local Government Transition Act No.209 of 1993, as amended states that “ the Chief Executive Officer / Municipal Manager of a Municipality shall cause to be kept in the accounting records a revenue account which shall be credited with all monies which accrues to and is received by the Municipality”.

3.2 Section 10G(2) (f) of the Local Government Transition Act No.209 of 1993 as amended, further states that “if a person who is or was in the employ of a municipality causes or caused the municipality a loss or damage because he or she failed to collect money owing to the municipality for the collection of which he or she was responsible, the Municipal Manager of that Municipality , or, if the Council, shall determine the amount of such loss or damage and take disciplinary action where possible and in appropriate cases recover the loss or damage”.

3.3 It is clear therefore that the determination and application of credit control measures are the responsibility of the Municipal Manager, however the day to day handling of credit control and debtors is the Chief Financial Officer's or his/her designator's responsibility. It is however suggested that Council be consulted at the determination of the credit control measures to recover budgeted income. If there is any undue interference by a Council or

Councillor which prohibits the Municipal Manager from executing his responsibilities in this regard, he should report this to the relevant MEO.

3.4 The Municipal Manager and his/her designate must take effective and appropriate steps to collect all money due to the institution, including as necessary:

- Maintenance of proper accounts and records for all debtors, including amounts, received in part payment, and
- Referral of matter to the State Attorney, where economical, to consider a legal demand and possible legal proceedings in a court of law.

4. CUSTOMER CARE RESPONSIBILITY

4.1 In terms of **Section 95 of the Local Government Municipal Systems Act No.32 of 2000**, in relation to the levying of rates and other taxes by a municipality and the charging of fees municipal services, a Municipality must, within its financial and administrative capacity:

- Establish a sound **Customer Management System** that aims to create a positive and reciprocal relationship between persons liable for these payments and the Municipality itself,
- Establish mechanisms for users of services and ratepayers to provide feedback to the municipality or other service provider regarding the quality of the services and the performance of the service provider,
- Take reasonable steps to ensure that users of services are informed of the costs involved in services provision, the reasons for the payment of service fee and the manner in which monies raised from the service are utilized,
- Where the consumption of services have to be measured, take reasonable steps to ensure that the consumption by individual users of services is measured through accurate and verifiable metering system,
- Ensure that persons liable for payments, receive regular and accurate accounts and indicate the basis for calculating the amount due,
- Provide accessible mechanisms for those persons to query or verify accounts and metered consumption, and appeal procedures which allow such persons to receive prompt redress for inaccurate accounts

- Provide accessible mechanisms for dealing with complaints from such persons, together with prompt replies and corrective action by the municipality,
- Provide mechanisms to monitor the response time and efficiently in complying with the above point, and
- Provide accessible pay points and other mechanisms for settling accounts or for making pre-payments for services.

5. CREDIT CONTROL AND DEBT COLLECTION PRINCIPLES

5.1 Considering the socio-economic and other conditions presently prevalent in South Africa, such as the level of unemployment and poverty, the enforcement of payment for services will be ineffective if it is not based on acceptable principles. Furthermore, the availability to pay has to be separated from indigent members of the community.

5.2 BIG 5 HLABISA MUNICIPALITY ADOPTS THE FOLLOWING PRINCIPLE

5.2.1 Enforcement of the credit control and debt collection policy is a local matter subject only to legislation, i.e. The policy and its application should cater for the specific circumstances of the Big 5 Hlabisa Municipality.

5.2.2 The Municipal Manager, who is entrusted with the determination and execution of credit control measures, must report to the Council. This would ensure that local measures are consistent with nationwide initiatives.

5.2.3 Enforcement and policy making must be independent to ensure accountability. This would enable a review process to identify if the actual policy is a problem or rather if the application of the policy is failing.

5.2.4 Credit control and debtors' procedures must be understandable, uniform, fair and consistently applied. It is important to ensure that members of the community understand the procedures so that there would be fewer disputes when the procedures are applied. A fair uniform system would ensure that any two community members in exactly the same situation should be treated in exactly the same way. This will enhance the community's perception of the Municipality and aid in the acceptance of the procedures.

5.2.5 Credit control must be effective, efficient and economical. To be effective the credit control policies and procedures must result in the improvement of the recovery rate for the Municipality's debtors.

5.2.6 The measures taken must be sustainable in the long term. Policies and procedures that are adopted should not be “**quick fix**” solutions but should lay the foundation of a system that can continuously, effectively address credit control issues.

5.2.7 A proper **Indigent Policy** must be in place. Such a policy will enable the municipality to differentiate between those community members that cannot afford to pay from those that simply don't want to pay.

6. CREDIT CONTROL AND DEBT COLLECTION POLICY

6.1 DEBTORS

It is important that all monies owing to the municipality are correctly reflected in the debtors system. The following control measures are necessary:

- A well-managed debtors and banking control system will ensure that funds owed to the municipality are received and banked, and
- It is important to review debt collection performance by comparing the debtors outstanding in relation to total turnover and then comparing this to previous financial years, in order to determine whether the debt collection process is deteriorating or improving.

6.2 DEBTOR COLLECTIONS

6.2.1 All funds due to the municipality must be collected timeously and banked on a daily basis. Cash left in the safe which poses a security risk and does not earn interest. Large sums of money received must be deposited into the bank account on the same day the payment is received.

6.2.2 It is important that all monies owing to the municipality are correctly reflected in the debtors system, the following control measures are necessary:

- A well-managed debtors and banking control system will ensure that funds owed to the municipality are received and banked, and

- It is also important to review debt collection performance by comparing the debtors outstanding in relating to total turnover and then compare this to previous financial years, in order to determine whether the debt collection process is deteriorating or improving.

6.2.3 All monies collected by the municipality must be banked in the primary bank account of the municipality.

6.2.4 money collected by some other agency on behalf of the municipality shall be paid over to the municipality or deposited in the bank account of the municipality in a manner prescribed by the Municipal Manager

6.2.5 The receipt of all monies collected by the municipality shall be acknowledged forthwith by the issue of a numbered official receipt

6.3 ACCOUNTS

Accounts must be prepared the first day after month end and must be posted to the customers immediately thereafter as the consumer has 25 days to pay from date of account.

The account / invoice or statement must be printed on a standard form which must contain the following details:

- Consumer name
- Consumer account number
- Consumer postal address
- Residential / Erf details to where the service(s) have been supplied
- All details of services that have been supplied, i.e. electricity, water, rates, refuse removal, etc,
- Any outstanding balance from the previous month,
- Any re-connection/ disconnection charges that may have been charged and
- Any interest or fines that may have accrued.

6.3.2 AGE ANALYSIS AND OVERDUE ACCOUNTS

- An age analysis must be printed on a regular basis. Any amounts outstanding over 30 days must be followed up immediately. Consumers should pay their accounts within 25 days from the date of the account.
- When accounts are printed at the end of each month, the total of the accounts printed must agree to the age analysis. Any differences must be reconciled immediately and corrected.
- Any amounts over 30 days must be reported to the Chief Financial Officer and the consumer must be notified that should the account not be paid in 24 hours the services will be disconnected or legal actions will be taken.
- The consumer will be held liable for all disconnection and reconnection charges.
- A consumer's supply may not be reconnected until such time as the consumer's account is settled in full including any re-connection / disconnection charges and interest that may have been accrued.
- Should a consumer fail to pay their account even once the service has been terminated, the credit control and debt collection policy must be implemented to recover the outstanding amounts due.

6.4 RECEIPT AND CLEARING OF ACCOUNTS

6.4.1 The person responsible for receipting of monies received from debtors must not be the debtor's clerk. The two positions must be kept separate and filled by different people. This is done in order to reduce the risks of fraud within the municipality.

6.4.2 All receipts must be correctly allocated to the relevant debtors account and furthermore the amount be correctly allocated to the correct services that are being paid for.

6.4.3 Any unknown receipts will be left temporarily in a debtor's suspense account. The amount must be traced to deposits or remittances and must be followed up by contacting the payee or bank where applicable, to verify for what or whom the payment was received.

6.4.4 The debtor's receipts clearing or suspense accounts must be cleared at least on a weekly basis.

6.5 ARREAR ACCOUNTS

The following arrangements for the payment of arrear accounts should be considered:

6.5.1 If the overdue balance contains amounts which have been outstanding for Longer than twelve months, there should be a minimum amount of the total overdue balance that will be acceptable as an initial payment. The Municipal Manager may decide on an arrangement so settle the balance in equal installments. The maximum period is twelve months within the financial year.

6.5.2 If the overdue balance contains amounts which have been outstanding for less than twelve months, there should be a minimum amount of the total overdue balance that will be accepted as an initial payment. The balance should be settled in equal installments over a maximum period of six months.

6.5.3 A debtor who, without notifying the Municipal Manager or his/her designate (Chief Financial Officer), fails to comply with any arrangements, is automatically excluded from the right to be considered for a further extension. The Municipal Manager is not obliged to notify the debtor of the failure.

6.5.4 If after continuation, the debtor again applies for arrangement, the Municipal Manager or his/her designate may consider this. However, if services have been discontinued or restricted such further arrangement will exclude the continuation of the service until full payment has been received by the municipality.

6.5.5 Alternative payment arrangements may be negotiated under set conditions, which the Municipal Manager may determine.

6.5.6 Written confirmation of alternative payment arrangements will specify the due Dates, disconnection process, the re-connection process, penalties, etc. the condition that any future monthly accounts are paid by the standard due date will be automatically included.

6.6 CONSUMER DEPOSIT

Consumer deposits shall on an ongoing basis be adjusted / recalculated to cover at least two and a half times the estimated consumption. The minimum deposits required shall be

calculated in accordance with the debtors and deposits ratio as applicable during a specified month of each year.

6.7 DEBTORS OTHER THAN CONSUMER DEBTOR

Amounts due to the municipality for any service rendered shall be due and payable when the service is rendered. Notwithstanding any disputes that may arise, the outstanding amounts will bear interest and all amounts after 90 days shall be handed over for collection.

6.8 INTEREST

Interest at the rate of 7.5% will be charged on all arrear amounts that are on the day following the final date for payment indicated on the account. For this purpose, part of a month will be treated as full month.

6.9 CREDIT BUREAU LISTING

The names of debtors in accordance with the council's records will, after Court judgment, be automatically listed with credit bureaus simultaneously with the handing over of amounts for collection.

6.10 AGENTS, ATTORNEYS AND OTHER COLLECTION AGENTS

All external agents acting on behalf of Big 5 Hlabisa Municipality are to be named together with their details and contact information. Under no circumstances may agents negotiate terms, extend payment periods or accept cash on behalf of Big 5 Hlabisa Municipality, unless specifically instructed to do so in writing. The liability for the cost of legal action and other credit control actions must, as far as is legally possible, be for the account for the debtor.

6.11 DISCLOSURE

In terms of **GRAP 9**

- The aggregate debtors should be shown on the face of the balance sheet,
- The debtors should be classified per category in the notes to the balance sheet and
- The bad debt provision should be set-off against debtors, and the basis of the provision should be disclosed in the notes.

7. WRITTING OFF OF BAD DEBTS

Any debt written off must:

7.1 Only be written off after all reasonable steps have been taken to recover the debt, in accordance with this policy, and the council has convinced itself that:

7.1.1 Recovery of the debt would be uneconomical

7.1.2 Recovery would cause undue hardship to the debtor or his/her dependents, and

7.1.3 It would be an advantage to the municipality to effect a settlement of its claim or to waive the claim.

7.2 Be disclosed in the annual financial statements, indicating the policy in terms of which debt was written off.

8.EFFECTIVE DATE

This Policy shall come to effect upon approval by the Council of Big 5 Hlabisa Local Municipality on 01 July 2018.

9.POLICY ADOPTION

This Policy has been considered and approved by the **COUNCIL OF BIG 5 HLABISA LOCAL MUNICIPLAITY** as follows:

Resolution No:.....

Approval Date: